

Public Schools of the City of  
North Muskegon

REPORT ON FINANCIAL STATEMENTS  
(with required supplemental information)

Year ended June 30, 2008

Public Schools of the City of  
North Muskegon

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Public Schools of the City of  
North Muskegon  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

The Public Schools of the City of North Muskegon is a K-12 School District located in the City of North Muskegon, Michigan. This Management's discussion and analysis provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008.

The discussion is a requirement of the GASB 34 and generally accepted accounting principles GAAP. These principles require the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

### **Financial Highlights**

North Muskegon Schools continued to be fiscally responsible, meeting our governmental reporting responsibilities and the needs of our students. Budgeted revenues are substantially dependent on state student and categorical aid which has been under pressure. As the year ended we note the following Financial Highlights and Other Accomplishments:

- **Growth in the Fund Balance**

Expecting moderate growth in the fund balance, we ended the year with a fund balance of \$715,363. This gives us a fund balance of 9.70%. The fund balance at the end of 2006/2007 was reported at 8.17%. The State Average fund balance is 14%.

- **State Aid**

State Aid increased by 2.77% from 2006-2007 to 2007-2008. This reflects an increase of our blended membership by 9 students. Our property tax base also experienced an increase resulting in additional funding which is reflected in the above State Aid increase of 2.77% or \$185,877 in new money to the district.

- **Adult Education**

North Muskegon Public Schools in cooperation with Whitehall District Schools and its Consortium along with collaboration from area businesses, offers Adult Basic Education, High School Completion, GED Preparation and Testing and English as a Second Language classes to area residents most in need. In September of 2007 we served 67 GED participants and 38 High School completion students from the five Consortium districts of Holton, North Muskegon, Whitehall, Montague and Reeths Puffer. Funding for this program is channeled through North Muskegon Public Schools and is reflected in our State Aid payments.

Public Schools of the City of  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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- **Retirement Rate**

The Michigan Retirement System announced that the contribution rate due on members' wages paid between October 1, 2007, and September 30, 2008, will be 16.72 percent. The rate for the 2006 – 2007 school year was 17.74 percent. The resulting savings to the school was reflected in the lower payments to the MESPERS system although wages reflected a 2.5% increase plus longevity steps to salaries.

- **Textbooks**

Grades 6 through 12 received their new social studies textbooks which brought us more in line with the State requirements. \$37,623 was spent on these textbooks which also included updated Street Law materials and textbooks.

The Elementary staff are still studying the needs of the students and reviewing State requirements. New textbooks and teaching materials are expected to be approved in the 2008-2009 school year. The estimated cost of these textbooks has not been reserved in the Fund Balance but will most likely be reflected as an expense that draws on the Fund Balance in the new school year.

- **Trimester Scheduling**

North Muskegon is in the second year of a trimester system. This scheduling allows the school to offer our students more electives and Advanced Placement classes. Dual enrollment at the Muskegon Community College is also available to our students. Although dual enrollment costs have increased in the last two years we will be studying the effect of the trimester scheduling costs in the future.

- **Operations and Maintenance**

School operations and maintenance to the building were extensive this year increasing by 2.59%. Cost of Gas and Electric showed a moderate increase in this area as our investment in a electrical capacitor bank was realized. Repairs to the heating and cooling systems, controls and roofing made up most of this increase. We renewed our Custodial Service contract with Grand Rapids Building Services with no increase in price.

Public Schools of the City of  
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- **Busing**

The North Muskegon Public School board again made a commitment to run buses in our 3 square mile area. Increased diesel fuel costs amounted to \$3,365 of the \$109,867 transportation budget. This represents an increase of 20.69% for fuel.

- **Interest**

North Muskegon has been borrowing less as its fund balance grows. In 2005/2006 we borrowed \$1,845,000 for operations. In 2006/2007 our borrowing for operations decreased to \$900,000. We have reduced our interest expense from year to year and as our debts decrease we expect that this interest will be available to be spent in other areas of the budget.

Although bank interest returns have taken a beating as the economy weakens we hope to see higher returns in the future.

- **State Requirements**

North Muskegon Public Schools has filed all reporting and is compliant with the Federal NCLB Accreditation requirements. North Muskegon Elementary, Middle School and the High School were given "A" scores by the State of Michigan. North Muskegon was also recognized as a top school in Michigan for our graduation rate of 98.7%.

- **Technology Upgrades**

In cooperation with other area school districts and the MAISD, North Muskegon has or is in the process of updating its business technology. These areas include:

**Financial Software.** Munis Financial Software has been purchased by the MAISD and will update our current accounting/payroll package we receive from them. This updated Accounting software also includes: Payroll, a timekeeping system, inventory, human resources, applications, accounts receivable and accounts payable. It has scanner abilities and will track invoices through the entire system. North Muskegon staff will be trained on this new system in 2010 although we have taken a proactive stance and are loading spreadsheets for instant uploads.

Public Schools of the City of  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

- **Technology Upgrades - Continued**

**Inventory**

A complete manual inventory was taken of North Muskegon Public Schools during the 2007/2008 school year. This inventory included: classrooms, kitchen, cafeteria, storeroom, gyms and Technology. It was compiled in the Superintendent's office and loaded per the software requirements of the new inventory system.

**Data Warehousing.** IGOR – Information Gathering to Obtain Results. The District in cooperation with the Muskegon Area ISD and consortium districts purchased this data warehousing program. Training on the new system has resulted in instant results to multiple searches and has given us student data in a more timely manner. This has helped our required State test scores and given our Administration the information they need to plan for the up coming school year.

Public Schools of the City of  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

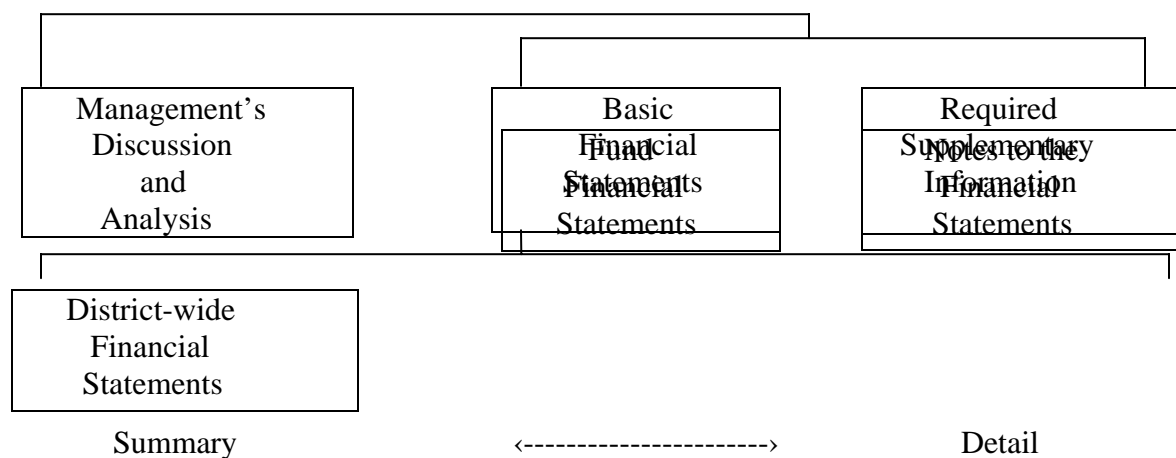
**Overview of the Financial Statements**

This annual report for the Public Schools of the City of North Muskegon consists of a series of financial statements, a management's discussion and analysis and required supplemental information.

- The district-wide financial statements provide short-term and long-term information about the Public Schools of the City of North Muskegon's overall financial status. The fund financial statements focus on the individual parts of the District. These statements report operations in greater detail than the district-wide statements.
- The governmental funds statements describes the basic services like regular and special education expenses in the short term in addition to what the district has in reserved for future spending.
- Proprietary funds statements are for those services that operate like a business, such as our athletic and cafeteria departments.
- A fiduciary fund, where North Muskegon acts as an agent or trustee is also included in these statements.

The financial statements also include notes and detailed information that more fully explains the information provided in the financial statements. The statements are then followed by required supplementary information that offers further support and explains how the financial statements compare with the budget year.

**Organization of the Public Schools of the City of North Muskegon  
Annual Financial Report**



The basic financial statements include two kinds of statements that present different views of the district.

**The District-wide financial statements** reports information about the District as a whole and about its activities in a manner that helps answer the question “Is the District better off or worse off as a result of the year’s activities overall.” The Statement of Net Assets and the Statement of Activities report information about the districts assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations.

- The Statement of Net Assets includes information on all assets and liabilities, both financial and capital, short-term and long-term.
- The Statement of Activities includes all revenues and expenses during the year regardless of when the cash is received or paid.

**The Governmental Fund financial statements** reports the activities the Public Schools of the City of North Muskegon’s General Fund – not of the District as a whole.

They include:

- The Balance Sheet
- The Statement of revenues, expenditures, and changes in fund balances.

These reports use modified accrual accounting and focus on current financial resources. On the balance sheet, asset and liabilities are expected to be used up during the current school year or soon thereafter and do not record long-term capital assets or liabilities. The Statement of revenues, expenditures and changes in fund balance reflects revenues for which cash is received during or soon after the end of the school budget year. Expenditures for goods and services used during the school year are recorded as a related liability or accounts payable.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year’s payments of principal and interest on long-term obligations are recorded as expenditures. Future year’s debt obligations are not recorded.

Additional activities are reported in their relevant funds including: Special Revenue Funds for Food service and Athletic activities, Debt Service Funds, Capital Projects Funds, and Fiduciary Funds.



## Financial Analysis of the District as a whole.

The net assets (deficit) of the district at June 30, 2008 amounted to 3 million. Figure A-1 shows a condensed breakdown of the net assets.

83% of the asset total reflects investment in capital assets, land, building and improvement and furniture and equipment.

The District uses capital assets to provide services to students; consequently, these assets are not available for future spending. Capital assets cannot be used to repay debt and cannot be liquidated to apply against liabilities because of the related debt.

Figure A-1 Public Schools of the City of North Muskegon Condensed Statement of Net Assets (Deficiency)	
	Governmental Activities
Current assets	3,464,283
Non-current assets	16,579,383
Total Assets	<u>20,043,666</u>
Current liabilities	3,671,316
Non-current liabilities	19,549,693
Total Liabilities	<u>23,221,009</u>
Net Assets (Deficiency)	
Invested in capital assets and projects, net of related debt	(3,848,799)
Restricted for debt service	304,148
Unrestricted	367,308
Net assets (deficiency)	<u><u>(3,177,343)</u></u>

## **Summary of Changes in Net Assets**

### Depreciation Expense

The school District is required to maintain a detailed record of its Capital Assets, and to record annual depreciation expense and accumulated depreciation. Accumulated depreciation expense is a reduction in net assets. For the fiscal year ended June 30, 2008, accumulated depreciation was \$4,876,933. Depreciation expense recorded on a straight-line basis over the estimated useful lives of the assets was \$585,257.

### Capital Outlay Acquisitions

Capital acquisitions for fiscal year ended June 30, 2008 were \$18,505 for building technology, furniture and equipment.

### Long-Term Debt Changes

Additional School Bond Loan borrowing (454,988) was done to make debt principal payments accounting for substantially all of the long-term debt increase in the year. The interest cost associated with this borrowing 91,575 was added to loan principal.

**Figure A-2**  
**Public Schools of the City of North Muskegon**  
**Statement of Change in Net Asset (Deficiency)**

**Results of Operations:**

For the fiscal year ended June 30, 2008, the District wide results of operations were:

	<u><b>Amount</b></u>	<u><b>% of Total</b></u>
<b>General Revenue:</b>		
Property taxes levied for general operation	619,991	7.0
State of Michigan aid, unrestricted	6,295,137	70.9
Property taxes levied for debt service	1,099,845	12.4
Investment earnings	60,339	.7
Other	71,733	.8
	<u>8,147,045</u>	<u>91.8</u>
Total General Revenue		
<b>Program Revenue:</b>		
Charges for services - local	226,393	2.5
Operating grants and contributions	510,379	5.7
	<u>736,772</u>	<u>8.2</u>
Total Revenues	<u>8,883,817</u>	<u>100.0</u>
<b>Expenses:</b>		
Instruction and instructional support	5,244,765	58.2
Support services	1,820,211	20.2
Food services	243,451	2.7
Athletics	227,167	2.5
Interest on long-term debt	887,950	9.9
Depreciation and amortization (unallocated)	585,257	6.5
	<u>8,808,791</u>	<u>99.0</u>
Total Expenses	<u>9,008,801</u>	<u>100.0</u>
Increase in Net Assets (Deficiency)	<u><u>(124,984)</u></u>	

North Muskegon  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

**Property Taxes Levied for General Operations**

➤ General Fund Property Taxes

General Fund property taxes represent 17.8524 mills on non-homestead properties that the district levies for operations. The 2007 taxable value for non-homestead was \$35,106,362. Ordinarily a school district levies 18 mills, but due to the headlee millage reduction act, the Public Schools of North Muskegon is only allowed by law to levy 17.8578 mills for a headlee reduction of .1422 mills. This is a permanently reduced rate until voted back by the people.

Article IX, Section 31 of the Michigan Constitution (commonly referred to as the "Headlee Amendment") requires that if the total value of existing taxable property (SEV) in a local taxing unit, exclusive of new construction and improvements, increases faster than the US Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a millage reduction fraction unless new millage is authorized by a vote of the electorate of the local taxing unit.

The effect of these laws is to limit property tax increases in Michigan. The School Districts voted non-homestead millage and headlee amendment override will expire with the December 1, 2010 levy.

➤ State of Michigan Aid, Unrestricted Foundation Allowance

The State of Michigan Aid, unrestricted is determined by the following variables:

- The State of Michigan State Aid Act. Annually the State of Michigan sets the per student foundation allowance. The North Muskegon foundation allowance for 2007-2008 was \$7,326 per student.
- Student Enrollment. Student membership is blended using 75% of the current year September count and 25% of the prior years February count.
- The District's non-homestead taxable value as of 6/25/07 was \$35,106,362. Non-homestead taxes of 7.73 mills are used to reduce voted debt in the debt retirement funds. As outlined in the Michigan Constitution of 1963, if this sum is less than sufficient to pay the principal and interest on the bonds at such time the principal and interest fall due, funds will be borrowed from the School Bond Loan Fund. North Muskegon borrowed \$454,988 in 2007/2008 to meet its obligation to its bondholders. PA 92 of 2005 requires repayment of outstanding school bond loans within 6 years of our final bond payment. Based on a review of the district's outstanding debt service requirements, millage rate, taxable value and projected taxable growth rate, North Muskegon will meet the repayment requirements of the State of Michigan PA 92.

North Muskegon  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

**Student Enrollment**

The District's blended count for the 2007-2008 school year was 898.07. The following summarizes the blended counts of the past five years:

	<u>Student Blended Count</u>	<u>Student change from Prior year</u>
2007-2008	898.07	10.26
2006-2007	887.81	9.97
2005-2006	877.84	(4.14)
2004-2005	881.98	(27.44)
2003-2004	909.46	(3.37)

The Public Schools of the City of North Muskegon participates in the countywide Schools of Choice program.

**Property Taxes Levied for Debt Service**

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties, both homestead and non-homestead encompassed by the City of North Muskegon. The School District is 2 square miles and follows boundaries of the City of North Muskegon.

The top ten taxpayers within the City of North Muskegon represent 6.97% of the School District's 2007 taxable valuation of \$144,505,888. Debt levies included voted debt for the 2003, 2005, and 2006 issues. A total of 7.73 mills were levied for debt service.

- The Public Schools of the City of North Muskegon has met the requirements of material compliance under Public Act 34 of 2001, to issue municipal securities under the act with approval from the Department of Treasury, State of Michigan.

North Muskegon  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

**General Fund Budget & Actual Revenues & Expenditures**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal school year. As a matter of practice, the District amends its budget periodically through the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures.

	<u>July 1, 2007 Budget</u>	<u>June 30, 2008 Budget</u>	<u>Variance</u>
Revenues			
Property taxes	582,453	609,483	27,030
Other local sources	109,462	117,995	8,533
State sources	6,101,571	6,291,670	190,099
Federal sources	146,847	157,682	10,835
Other	<u>128,000</u>	<u>241,389</u>	<u>113,389</u>
Total Revenues	7,068,333	7,418,219	349,886
Expenditures			
Instruction	4,996,480	5,183,992	(187,512)
Support services	1,777,024	1,869,421	(92,397)
Fund mod – athletics & café	151,751	152,830	(1,079)
Other	<u>146,500</u>	<u>167,198</u>	<u>(20,698)</u>
Total Expenditures	7,071,755	7,373,441	(301,686)

North Muskegon  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

**FUND FINANCIAL STATEMENTS**  
General Fund Operational Budget  
Comparison of Budget to Actual Results

	<u>Initial Budget</u>	<u>Amended Budget</u>	<u>Actual Result</u>
<u>REVENUES</u>			
Local	691,915	727,478	739,383
State	6,101,571	6,291,670	6,295,138
Federal	146,847	157,682	157,682
Transfers and other	<u>128,000</u>	<u>241,389</u>	<u>256,345</u>
Total	<u>7,068,333</u>	<u>7,418,219</u>	<u>7,448,548</u>
	Variance from Initial Budget		5.4%
	Variance from Amended Budget		.41%
<u>EXPENDITURES</u>			
Instruction	4,996,480	5,183,992	5,161,158
Student/staff services	372,393	428,606	423,757
General administration	319,516	306,837	302,408
School administration	336,268	320,778	314,741
Business services	95,250	126,359	123,661
Maintenance	583,674	613,503	603,649
Transportation	117,923	113,251	109,868
Other costs	<u>250,251</u>	<u>280,115</u>	<u>280,461</u>
Total	<u>7,071,755</u>	<u>7,373,441</u>	<u>7,319,703</u>
	Variance from Initial Budget		3.5%
	Variance from Amended Budget		(.73%)

The above variances between budget and actual are relatively insignificant considering all the unknowns that existed when the budget was prepared. These unknowns consist of such items as student count, employee contracts, state aid, staffing, and new accounting guidelines.

North Muskegon  
FUND FINANCIAL STATEMENTS  
COMPARATIVE RESULTS OF OPERATIONS  
Actual

GENERAL OPERATING FUND

	For the year ended June 30		Favorable (Unfavorable)
	<u>2008</u>	<u>2007</u>	<u>Variance</u>
Revenues			
Taxes	\$ 619,991	\$ 586,215	\$ 33,776
Investment earnings	38,185	55,533	(17,348)
Other local sources	81,207	65,789	15,418
State restricted grants	6,295,138	6,129,835	165,303
Federal restricted grants	157,682	160,100	(2,418)
Transfers from athletic/cafe funds	-	22,300	(22,300)
Other governmental units - Sp. Ed.	178,791	159,200	19,591
Prior year adjustments	77,555	7,062	70,493
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Total	7,448,549	7,186,034	262,515
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Expenditures			
Instruction	5,161,158	4,669,593	(491,565)
Supporting services	1,820,211	1,832,011	11,800
Debt principal payments	22,102	21,667	(435)
Athletic and cafe subsidy	154,111	152,570	(1,541)
Interest	40,579	39,238	(1,341)
Payments to others for Sp. Ed., etc.	104,248	334,118	229,870
Capital outlay	17,294	12,000	(5,294)
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Total	7,319,703	7,061,197	(258,506)
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EXCESS REVENUE, NET	\$ 128,846	\$124,837	\$ 4,009
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Public Schools of the City of  
North Muskegon  
COMPARATIVE REVENUE ANALYSIS  
SELECTED ITEMS - GENERAL OPERATING FUND  
Actual

GENERAL OPERATING FUND

	For the year ended June 30		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
<u>Prior Year Adjustments</u>			
Special education	28,289	22,945	5,344
State aid	53,851	(10,562)	64,413
Workers compensation insurance adj.	(2,830)	(5,853)	3,023
MAISD Act 18	(1,805)	-	(1,805)
IRS	-	532	(532)
Total	<u>77,505</u>	<u>7,062</u>	<u>70,443</u>
 <u>Other Local Sources</u>			
Rent income	10,299	8,470	1,829
Contributions	21,139	8,437	12,702
Medicaid	24,129	21,110	3,019
Other - including discounts	12,147	2,165	9,982
Expense reimbursements	5,768	3,280	2,488
Drivers education	7,725	6,630	1,095
Special activities trip	-	15,697	(15,697)
Total	<u>81,207</u>	<u>65,789</u>	<u>15,418</u>
 <u>Federal Restricted Grants</u>			
Title I	19,563	17,838	1,725
Title II-A	19,739	19,577	162
Title V	181	180	1
Drug free grant	1,855	1,684	171
Idea funds	113,925	120,638	(6,713)
Title II-D	184	183	1
Service provider	2,235	-	2,235
Total	<u>157,682</u>	<u>160,100</u>	<u>(2,418)</u>

North Muskegon  
COMPARATIVE EXPENSES ANALYSIS  
SELECTED ITEMS - GENERAL OPERATING FUND  
SALARIES

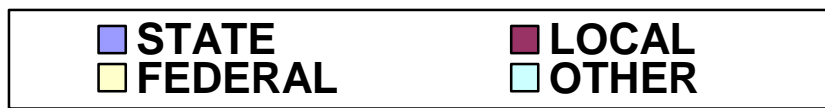
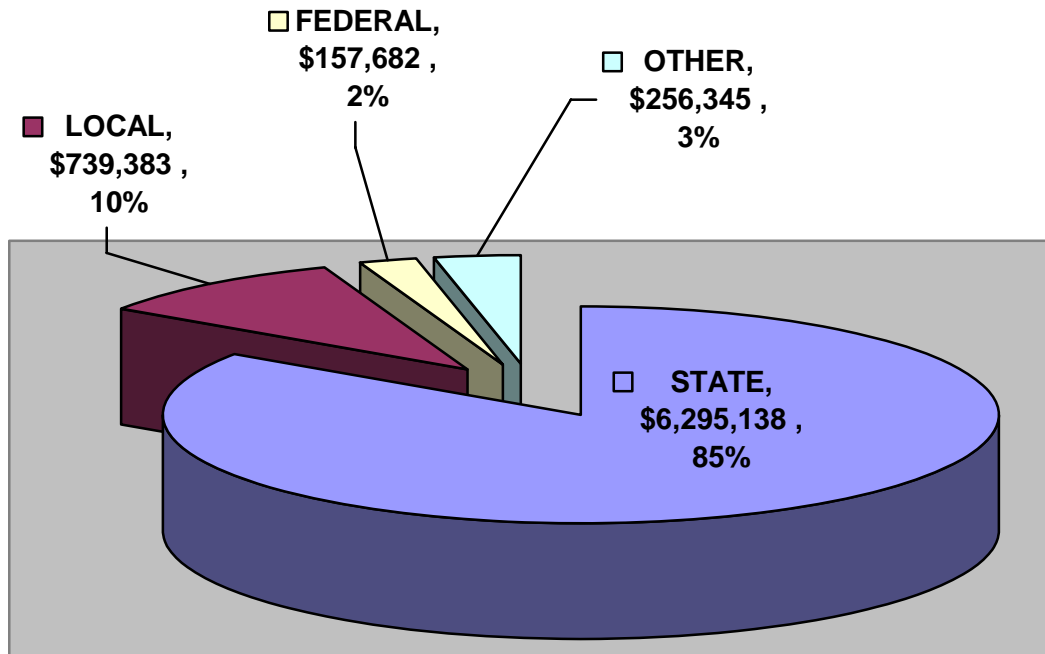
	For the year ended June 30			
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Elementary school	\$ 1,165,019	\$ 1,109,511	\$ 55,508	5%
Middle school	665,469	594,989	70,480	12%
High school	854,889	802,206	52,683	7%
Special education	429,621	420,276	9,345	2%
Title I - at risk	56,600	59,475	(2,875)	-5%
Drivers education	5,562	5,482	80	1%
Guidance	117,934	104,603	13,331	13%
Social worker	34,896	-	34,896	100%
Noon aides & caller	16,892	16,527	365	2%
Support services	10,554	10,491	63	1%
Librarian and clerks	40,801	29,705	11,096	37%
Technology	45,574	51,306	(5,732)	-11%
Title II	-	11,030	(11,030)	-100%
General administration	182,093	173,242	8,851	5%
School administration	189,983	199,405	(9,422)	-5%
Operations and maintenance	62,577	60,740	1,837	3%
Transportation	53,206	58,815	(5,609)	-10%
Business support services	<u>28,165</u>	<u>-</u>	<u>28,165</u>	<u>100%</u>
	<u>\$ 3,959,835</u>	<u>\$ 3,707,803</u>	<u>\$ 252,032</u>	<u>7%</u>

North Muskegon  
COMPARATIVE EXPENSES ANALYSIS  
SELECTED ITEMS - GENERAL OPERATING FUND  
EMPLOYEE BENEFITS

	For the year ended June 30			
	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Elementary school	\$ 542,911	\$ 575,152	\$ (32,241)	-6%
Middle school	318,169	306,423	11,746	4%
High school	429,525	464,204	(34,679)	-7%
Special education	179,272	179,614	(342)	0%
Title I - at risk	12,464	17,967	(5,503)	-31%
Drivers education	1,076	1,013	63	6%
Guidance	38,562	50,746	(12,184)	-24%
Social worker	7,269	-	7,269	100%
Noon aides & callers	4,231	4,186	45	1%
Support services	2,572	2,236	336	15%
Title II	-	2,640	(2,640)	-100%
Librarian and clerks	7,414	19,554	(12,140)	-62%
Technology	16,170	19,076	(2,906)	-15%
General administration	92,503	90,120	2,383	3%
School administration	110,017	104,567	5,450	5%
Operations and maintenance	48,789	47,629	1,160	2%
Transportation	14,860	16,333	(1,473)	-9%
	<u>\$ 1,825,804</u>	<u>\$ 1,901,460</u>	<u>\$ (75,656)</u>	<u>-4%</u>

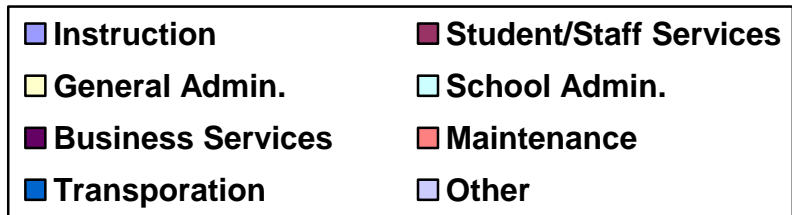
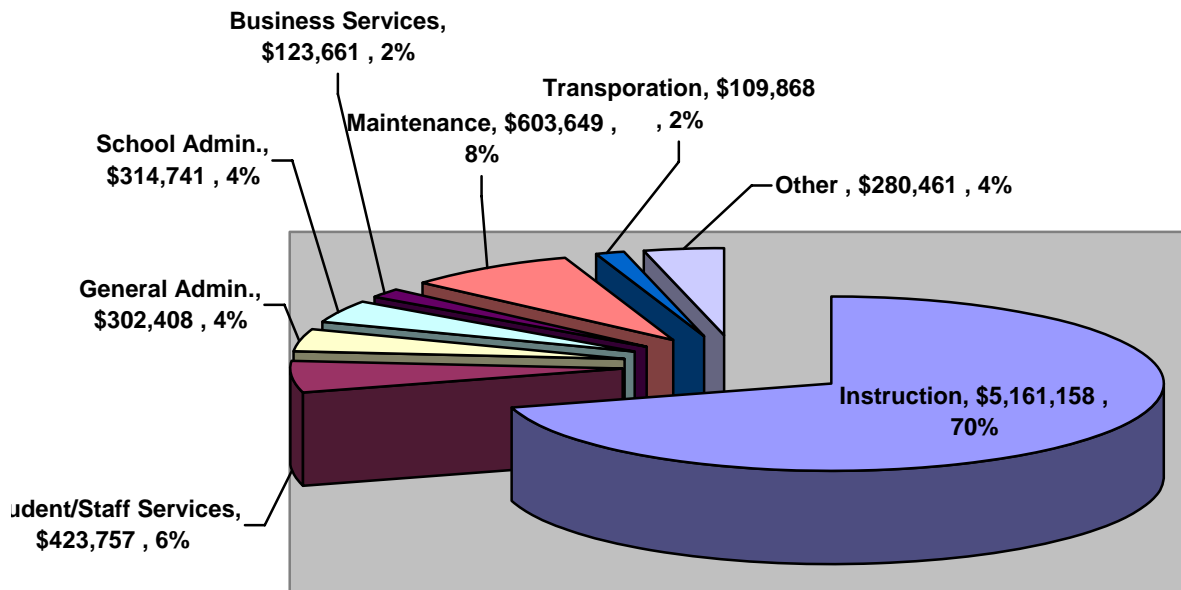
North Muskegon  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008

**GENERAL FUND REVENUES**  
**\$7,448,548**

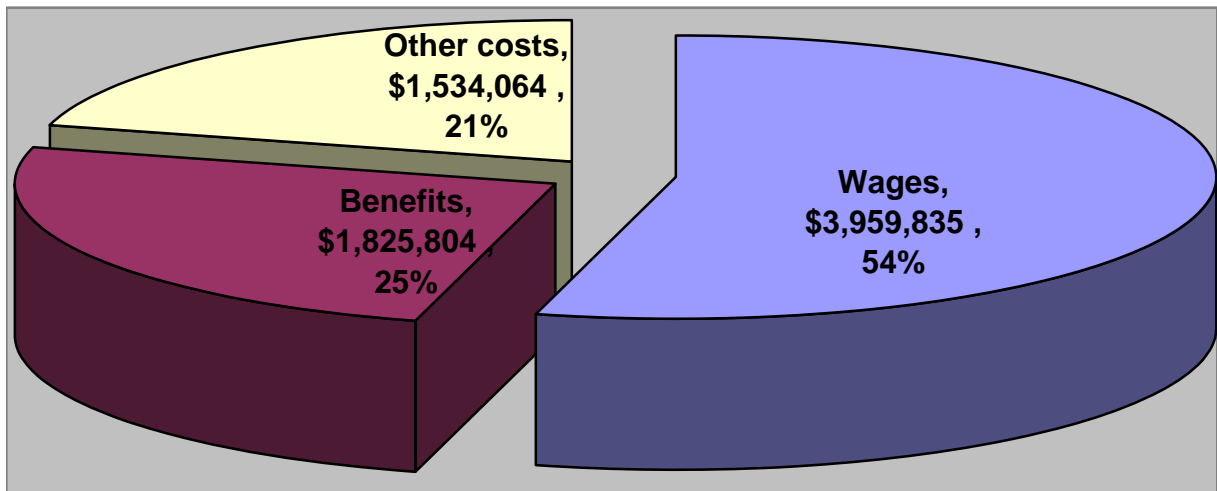


North Muskegon  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2008

## GENERAL FUND EXPENDITURES \$7,319,703



**GENERAL FUND EXPENDITURES BY  
MAJOR COST COMPONENTS  
\$7,319,703**



North Muskegon  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2008

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendents Office, the Public Schools of North Muskegon at (231) 719-4100.

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
North Muskegon Public Schools  
North Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and funds of Public Schools of the City of North Muskegon (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's financial statements as listed in the table of contents. These financial statements are the responsibility of Public Schools of the City of North Muskegon's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each fund, and the aggregate remaining fund information of Public Schools of the City of North Muskegon, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



JOHN J. MAHONEY CPA, P.C.

Board of Education

Page 2

In accordance with Government Auditing Standards we have also issued our report dated October 10, 2008 on our consideration of Public Schools of the City of North Muskegon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The managements' discussion and analysis and budgetary comparison information on pages i through xx and 34 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages A1 through A8 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Muskegon, Michigan

October 10, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Education  
Public Schools of the City of North Muskegon  
North Muskegon, Michigan

We have audited the general-purpose financial statements of the Public Schools of the City of North Muskegon as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Public Schools of the City of North Muskegon's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Public Schools of the City of North Muskegon in a separate letter dated October 10, 2008.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Public Schools of the City of North Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting.

Continued from preceding page:

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Public Schools of the City of North Muskegon in a separate letter dated October 10, 2008. This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Muskegon, Michigan  
October 10, 2008

Public Schools of the City of  
North Muskegon  
STATEMENT OF NET ASSETS (DEFICIT)  
June 30, 2008

	Governmental activities
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 2,109,190
Accrued interest	1,157
Due from other governmental units	1,341,328
Accounts receivable	2,067
Inventories	6,553
Prepaid expenses	3,988
Total current assets	<u>16,330,150</u>
<b>NONCURRENT ASSETS</b>	
Capital assets, net of depreciation	16,330,150
Bond issuance costs, net of amortization	249,233
Total noncurrent assets	<u>16,579,383</u>
 Total assets	 20,043,666
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
State aid loan	933,120
Accounts payable and accrued expenses	1,607,997
Unearned revenue	340,199
Bonds and notes payable, due within one year	772,500
Sick pay & early retirement incentives, due within one year	17,500
Total current liabilities	<u>3,671,316</u>
<b>NONCURRENT LIABILITIES</b>	
Bonds and notes payable, less amounts due within one year	19,423,808
Sick pay and early retirement incentives, less amounts due within one year	125,885
Total noncurrent liabilities	<u>19,549,693</u>
 Total liabilities	 23,221,009
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(3,866,158)
Restricted for:	
Debt service	304,148
Capital projects	17,359
Unrestricted	367,308
Total net assets (deficit)	<u><u>\$ (3,177,343)</u></u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of  
North Muskegon  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2008

		Program Revenue		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for services	Operating grants and contributions	Governmental activities
Functions/Programs				
Governmental activities				
Instruction	\$ 5,244,765	\$ 7,725	\$ 415,777	\$ (4,821,263)
Support services	1,820,211	-	-	(1,820,211)
Food services	243,451	145,260	93,997	(4,194)
Athletics	227,167	73,408	605	(153,154)
Interest on long-term debt	887,950	-	-	(887,950)
Unallocated depreciation and amortization	585,257	-	-	(585,257)
Total governmental activities	<u>\$ 9,008,801</u>	<u>\$ 226,393</u>	<u>\$ 510,379</u>	<u>\$ (8,272,029)</u>
General revenues				
Taxes				
Property taxes, levied for general purposes				619,991
Property taxes, levied for debt service				1,099,845
Grants & contributions not restricted to specific programs				6,295,137
Investment earnings				60,339
Miscellaneous				71,733
Total general revenues				<u>8,147,045</u>
Change in net assets (deficit)				(124,984)
Net Assets (Deficit) at July 1, 2007				<u>(3,052,359)</u>
Net Assets (Deficit) at June 30, 2008				<u>\$ (3,177,343)</u>

The accompanying notes are an integral part of this statement

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	GOVERNMENT FUND TYPES				TOTAL GOVERNMENTAL FUNDS
	GENERAL	SCHOOL SERVICES	DEBT RETIREMENT	CAPITAL PROJECTS	
ASSETS:					
Cash and cash equivalents	\$ 1,770,599	\$ 11,125	\$ 304,148	\$ 23,318	\$ 2,109,190
Due from other governmental units	1,339,296	2,032	-	-	1,341,328
Accounts receivable	-	2,067	-	-	2,067
Inventory - textbooks	1,500	-	-	-	1,500
Inventory - food	-	5,053	-	-	5,053
Prepaid expense	3,988	-	-	-	3,988
TOTAL ASSETS	<u>3,115,383</u>	<u>20,277</u>	<u>304,148</u>	<u>23,318</u>	<u>3,463,126</u>
LIABILITIES AND FUND BALANCE					
Note payable	933,120	-	-	-	933,120
Accounts payable	166,891	7,962	-	5,959	180,812
Salaries and benefits payable	771,520	3,616	-	-	775,136
Accrued expenses	234,801	-	-	-	234,801
Due to other governmental units	293,688	-	-	-	293,688
TOTAL LIABILITIES	<u>2,400,020</u>	<u>11,578</u>	<u>-</u>	<u>5,959</u>	<u>2,417,557</u>
FUND BALANCE					
Reserved for:					
Capital projects	-	-	-	17,359	17,359
Debt service	-	-	304,148	-	304,148
Unreserved	715,363	8,699	-	-	724,062
TOTAL FUND BALANCE	<u>715,363</u>	<u>8,699</u>	<u>304,148</u>	<u>17,359</u>	<u>724,062</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,115,383</u>	<u>\$ 20,277</u>	<u>\$ 304,148</u>	<u>\$ 23,318</u>	<u>\$ 3,463,126</u>

The accompanying notes are an integral part of this statement.

Public Schools of the City of  
North Muskegon  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS (DEFICIT)  
June 30, 2008

Total fund balance - governmental funds		\$ 1,045,569
Amounts reported for governmental activities in the Statement of Net Assets (Deficit) are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	21,207,083	
Accumulated depreciation	<u>(4,876,933)</u>	16,330,150
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	308,221	
Accumulated amortization	<u>(58,988)</u>	249,233
Bond premiums, net of discounts, are not deferred in the governmental funds		(340,199)
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in governmental funds.		
Bonds payable	(17,776,400)	
Early retirement incentive	(60,500)	
Compensated absences	(65,385)	
Loans	<u>(2,437,408)</u>	(20,339,693)
Accrued interest in governmental activities is not reported in the governmental funds		<u>(122,403)</u>
Net assets (deficit) of governmental activities in the Statement of Net Assets (Deficit)		<u><u>\$ (3,177,343)</u></u>

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	GOVERNMENT FUND TYPE				TOTAL GOVERNMENTAL FUNDS
	GENERAL	SCHOOL SERVICE	DEBT RETIREMET	CAPITAL PROJECTS	
REVENUES:					
Local sources:					
Taxes	\$ 619,991	\$ -	\$ 1,099,845	\$ -	\$ 1,719,836
Charges for services, etc.	7,725	218,668	-	-	226,393
Investment earnings	38,185	-	16,027	677	54,889
Other local sources	73,482	605	-	-	74,087
State restricted grants	6,295,138	10,996	-	-	6,306,134
Federal restricted grants	157,682	83,001	-	-	240,683
Other financing sources					
Fund modification	-	154,111	97,000	-	251,111
Special Ed. act 18	135,272	-	-	-	135,272
Other transactions	121,073	-	-	-	121,073
Loans	-	-	454,988	-	454,988
TOTAL	7,448,548	467,381	1,667,860	677	9,584,466
EXPENDITURES:					
Education:					
Instructions	5,161,158	-	-	-	5,161,158
Supporting services	1,820,211	-	-	-	1,820,211
Food service	-	243,451	-	-	243,451
Athletics	-	227,167	-	-	227,167
Capital outlay	17,294	1,211	-	-	18,505
Debt principal payment	22,102	-	710,000	-	732,102
Fund modification	154,111	*	97,000	-	251,111
Interest	40,579	-	758,755	-	799,334
Other	104,248	-	709	-	104,957
TOTAL	7,319,703	471,829	1,566,464	-	9,357,996
EXCESS REVENUES (EXPENDITURES)	128,845	(4,448)	101,396	677	226,470
FUND BALANCE July 1, 2007	586,518	13,147	202,752	16,682	819,099
FUND BALANCE June 30, 2008	\$ 715,363	\$ 8,699	\$ 304,148	\$ 17,359	\$ 1,045,569

The accompanying notes are an integral part of this statement.



Public Schools of the City of  
North Muskegon  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the year ended June 30, 2008

Net change in fund balances - total governmental funds		\$ 226,470
Amounts reported for governmental activities in the Statement of Activities are different because:		
Proceeds from loans are an other financing source in the governmental funds but the proceeds increase long-term debt in the Statement of Net Assets.		(454,988)
Governmental funds report outlays for capital assets and bond issuance as expenditures		
In the Statement of Activities these costs are written off over time:		
Depreciation expense	(585,257)	
Capital outlay	18,505	
Amortization expense, net	<u>4,293</u>	(562,459)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets (Deficit).		732,102
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		(88,616)
Accrued interest on CD's is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		1,157
Changes in compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>21,350</u>
Change in net assets (deficit) of governmental activities		<u><u>\$ (124,984)</u></u>

The accompanying notes are an integral part of this statement.



Public Schools of the City of  
North Muskegon  
STATEMENT OF FIDUCIARY FUNDS  
Agency Funds  
June 30, 2008

ASSETS

Cash and cash equivalents	<u>\$ 181,496</u>
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LIABILITIES

Student activities funds	<u>\$ 181,496</u>
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The accompanying notes are an integral part of this statement.

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON  
COMBINING BALANCE SHEET - SCHOOL SERVICE FUND  
June 30, 2008

	School Service		
	Cafeteria	Athletics	Combined
ASSETS			
Cash	\$ 4,739	\$ 6,386	\$ 11,125
Inventories	5,053	-	5,053
Accounts receivable	-	2,067	2,067
Due from other government units	2,032	-	2,032
TOTAL ASSETS	<u>\$ 11,824</u>	<u>\$ 8,453</u>	<u>\$ 20,277</u>
LIABILITIES			
Liabilities	<u>6,314</u>	<u>5,264</u>	<u>11,578</u>
TOTAL LIABILITIES	<u>6,314</u>	<u>5,264</u>	<u>11,578</u>
FUND BALANCE	<u>5,510</u>	<u>3,189</u>	<u>8,699</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 11,824</u>	<u>\$ 8,453</u>	<u>\$ 20,277</u>

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON  
STATEMENT OF REVENUES AND EXPENDITURES AND FUND BALANCE  
SCHOOL SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2008

REVENUES:

Food Services - Cafeteria		
Student lunches and milk, etc.	\$ 145,260	
Federal aid	83,001	
State aid	10,996	239,257
		<hr/>
Athletic Activities		
Admissions and program sales, etc.	48,817	
Contributions	605	
Pay to participate fees	24,591	
Incoming transfers from general fund	154,111	228,124
		<hr/>
TOTAL REVENUES		<hr/> 467,381 <hr/>

EXPENDITURES

Food Services - Cafeteria		
Purchases - food and milk	103,805	
Salaries and fringes	102,635	
Miscellaneous supplies, etc.	13,948	
U.S.D.A. donated commodities	20,201	
Equipment repairs	4,073	244,662
		<hr/>
Athletic Activities		
Salaries and retirement	154,811	
Supplies and equipment	9,917	
Contract services, etc.	24,218	
Officials	16,793	
Grounds	21,428	227,167
		<hr/>
TOTAL EXPENDITURES		<hr/> 471,829 <hr/>

EXCESS (EXPENDITURES) (4,448)

FUND BALANCE - July 1, 2007 

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13,147

FUND BALANCE - June 30, 2008 

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\$ 8,699

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PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON  
COMBINING BALANCE SHEET - DEBT FUND  
June 30, 2008

	<u>GENERAL OBLIGATION BONDS</u>			
	<u>2006 ISSUE</u>	<u>2005 ISSUE</u>	<u>2003 ISSUE</u>	<u>COMBINED</u>
	<u>ASSETS</u>			
Cash and cash investments	<u>\$ 173,867</u>	<u>\$ 125,819</u>	<u>\$ 4,462</u>	<u>\$ 304,148</u>
 TOTAL ASSETS	 <u>173,867</u>	 <u>125,819</u>	 <u>4,462</u>	 <u>304,148</u>
	<u>LIABILITIES</u>			
 Fund Balance	 <u>173,867</u>	 <u>125,819</u>	 <u>4,462</u>	 <u>304,148</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 173,867</u>	 <u>\$ 125,819</u>	 <u>\$ 4,462</u>	 <u>\$ 304,148</u>

PUBLIC SCHOOLS OF THE CITY OF NORTH MUSKEGON  
COMBINING STATEMENT OF REVENUE AND EXPENDITURES AND FUND BALANCE - DEBT FUND  
June 30, 2008

	GENERAL OBLIGATION BONDS			
	2006 ISSUE	2005 ISSUE	2003 ISSUE	COMBINED
REVENUES				
Taxes	\$ 337,507	\$ 564,520	\$ 197,818	\$ 1,099,845
Interest earned	9,986	4,705	1,336	16,027
Loan - school bond fund	-	-	454,988	454,988
Fund modification	35,000	62,000	-	97,000
TOTAL REVENUES	382,493	631,225	654,142	1,667,860
EXPENDITURES				
Debt principal payment	-	320,000	390,000	710,000
Interest on debt	337,185	249,220	172,350	758,755
Paying agent fees, etc.	200	284	225	709
Fund modification	-	-	97,000	97,000
TOTAL EXPENDITURES	337,385	569,504	659,575	1,566,464
Net Revenue (Expenditures)	45,108	61,721	(5,433)	101,396
Fund Balance July 1, 2007	128,759	64,098	9,895	202,752
Fund Balance June 30, 2008	<u>\$ 173,867</u>	<u>\$ 125,819</u>	<u>\$ 4,462</u>	<u>\$ 304,148</u>

Note: The State of Michigan has deferred re-payment of the Durant debt until 2009. See note D.

Public Schools of the City of  
North Muskegon  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of North Muskegon Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School Districts accounting policies are described below.

**1. Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability of fiscal matters.

**2. District-wide and Fund Financial Statements**

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted assets.



Public Schools of the City of  
North Muskegon  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**2. District-wide and Fund Financial Statements - Continued**

**District-wide Financial Statements - Continued**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as general revenues.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

**Fund financial statements** – Fund financial statements are provided for all governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Because of public interest and consistency no distinction between major and non-major funds has been made. Accordingly, all individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following governmental funds:

- The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Public Schools of the City of  
North Muskegon  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**2. District-wide and Fund Financial Statements - Continued**

**Governmental Funds - Continued**

- The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The capital projects fund accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements. The School District has no Trust funds.

- The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

**3. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Public Schools of the City of  
North Muskegon  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Modified Accrual Method**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008 the foundation allowance was based on pupil membership counts taken in September 2007 and February 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**4. Other Accounting Policies**

**Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008 the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	17.85
Debt service fund – Homestead and non-homestead	7.73

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Unused inventory included in the School Service Fund at year end was \$5,053.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**4. Other Accounting Policies - Continued**

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of the other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets and Depreciation**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	50 years
Buses and other vehicles	10 years
Furniture and other equipment	10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**4. Other Accounting Policies – Continued**

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Early Retirement Incentives**

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported only when there is a specific due date or, if the retirement date is before year end, when there is not a specified legally enforceable due date.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported at face amount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**4. Other Accounting Policies – Continued**

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

The School District did not have significant expenditure budget variances



Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE C – DEPOSITS AND INVESTMENTS – CREDIT RISK**

**Deposits**

At year end, the bank carrying amounts of the School District's deposits were \$2,145,574. The book balance at year end was \$2,108,990 of which \$100,000 was covered by federal depository insurance and \$2,008,990 was uninsured and uncollateralized. The School District had \$200 of petty cash on hand. The School District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the School District, subject to minimal risk. The School District utilizes pooled cash accounts for some of its funds.

**Investments** – The School District has no investments.

**NOTE D – CAPITAL ASSETS**

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
<b>Capital Assets, not being depreciated:</b>				
Land	\$ 420,000	-	-	\$420,000
Total capital assets not being depreciated	420,000	-	-	420,000
<b>Capital Assets being depreciated:</b>				
Buildings & improvements	17,619,285	-	-	17,619,285
Equipment	2,915,910	18,505	(30,000)	2,904,415
Vehicles	<u>263,383</u>	<u>-</u>	<u>-</u>	<u>263,383</u>
Total capital assets being depreciated	20,798,578	18,505	(30,000)	20,787,083
<b>Less Accumulated Depreciation:</b>				
Building & improvements	2,744,987	396,684	-	3,141,671
Equipment	1,363,004	175,229	(30,000)	1,508,233
Vehicles	<u>213,685</u>	<u>13,344</u>	<u>-</u>	<u>227,029</u>
Total accumulated depreciation	<u>4,321,676</u>	<u>585,257</u>	<u>(30,000)</u>	<u>4,876,933</u>
Total capital assets being depreciated, net	<u>16,476,902</u>	<u>(566,752)</u>	<u>-</u>	<u>15,910,150</u>
Capital assets, net	<u>\$ 16,896,902</u>	<u>(566,752)</u>	<u>-</u>	<u>16,330,150</u>

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE E – BOND ISSUANCE COSTS**

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deduction</u>	<u>Balance June 30, 2008</u>
<b>Bond Issuance Costs:</b>				
2006	\$ 123,647	\$ -	\$ -	\$ 123,647
2005	100,655	-	-	100,655
2003	<u>83,919</u>	<u>-</u>	<u>-</u>	<u>83,919</u>
Total Bond Issuance Costs	<u>\$ 308,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,221</u>
<b>Less Accumulated Amortization:</b>				
2006	6,870	4,580	-	11,450
2005	16,775	6,710	-	23,485
2003	<u>17,660</u>	<u>6,393</u>	<u>-</u>	<u>24,053</u>
Total Accumulated Amortization	<u>41,305</u>	<u>17,683</u>	<u>-</u>	<u>58,988</u>
Total Bond Issuance Costs, Net	<u><u>\$ 266,916</u></u>	<u><u>\$ 17,683</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 249,233</u></u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F – SHORT-TERM DEBT**

**State Aid Loan**

The State of Michigan (state) school aid anticipation note payable issued on August 20, 2007 was paid on August 20, 2008 plus interest at the rate of 3.68 percent per annum. The School District pledged, for payment of the note, the amount of state school aid received plus the full faith, credit, and resources of the School District.

**Summary of and Changes in Short-Term Debt**

	<u>Balance July 1, 2007</u>	<u>Year ended June 30, 2008 Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>
2007/2008 3.68%				
State aid anticipation note	\$ -	\$ 933,120	\$ -	\$ 933,120
2006/2007 3.68%				
State aid anticipation note	<u>829,604</u>	<u>-</u>	<u>829,604</u>	<u>-</u>
	<u><u>\$829,604</u></u>	<u><u>\$ 933,120</u></u>	<u><u>\$ 829,604</u></u>	<u><u>\$933,120</u></u>

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE G – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Interfund Obligations**

There were no interfund balances.

**Interfund Transfers**

The General Fund transferred \$154,111 to the Athletics Fund during the year.

**NOTE H – LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Fund loans, compensated absences, and termination benefits.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities:</b>					
Bonds	\$18,486,400	\$ -	\$ (710,000)	\$ 17,776,400	\$ 750,000
Other obligations	<u>2,060,182</u>	<u>549,713</u>	<u>(46,602)</u>	<u>2,563,293</u>	<u>40,000</u>
	<u>\$20,546,582</u>	<u>\$549,713</u>	<u>\$(756,602)</u>	<u>\$ 20,339,693</u>	<u>\$790,000</u>

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE H – LONG-TERM OBLIGATIONS - Continued**

**Summary of Long-term Obligations – Continued**

Bonds payable at June 30, 2008 is comprised of the following issues:

2006 Refunding issue due in annual installments of \$0 - \$565,000 through May 1, 2033; interest at 4.0% to 4.4%	\$ 8,110,000
2005 Refunding issue due in annual installments of \$25,000 to \$480,000 through November 2020; interest at 2.5 to 5.0%	5,595,000
\$13,440,000 serial bonds issued in 2003 and due in annual installments of \$300,000 to \$500,000 through May 1, 2033; interest at 2.0% to 5.4% - partially refunded.	<u>4,050,000</u>
Subtotal	17,755,000
 \$52,214 Durant Non-Plaintiff serial bonds due in annual installments of \$12,302 to \$4,715 through May 15, 2013; interest at 4.76%	 <u>21,400</u>
Total Bonded Debt	<u><u>\$17,776,400</u></u>

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Payments on this debt have been deferred until the year 2009.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described in the preceding paragraph.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE H – LONG-TERM OBLIGATIONS - Continued**

The annual requirements of principal and interest to amortize debt outstanding as of June 30, 2008 follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	740,000	741,364	1,481,364
2010	755,000	719,614	1,474,614
2011-15	4,350,000	3,056,920	7,406,920
2016-20	5,050,000	2,067,030	7,117,030
2021-25	2,725,000	1,217,720	3,942,720
2026-30	2,615,000	668,004	3,283,004
2031-33	1,520,000	133,286	1,653,286
Bonds Sub-Total	<u>17,755,000</u>	<u>8,603,938</u>	<u>26,358,938</u>
School Bond Loan Fund	2,383,401	-	2,383,401
Durant Bond	21,400	4,265	25,665
EPA Loan	25,953	-	25,953
Compensated absences	65,385	-	65,385
Early retirement incentives	60,500	-	60,500
Installment debt	28,054	1,346	29,400
	<u>20,339,693</u>	<u>8,609,549</u>	<u>28,949,242</u>

The Debt Retirement Funds have \$304,148 available to service the general obligation bonds. Interest expenditures for all long-term debt for the year ended June 30, 2008 total \$851,673.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE I – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN**

**Plan description**

The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial Report that includes financial statements and required supplementary information or MPERS. That report may be obtained by writing to or calling:

Office Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing, MI 48909  
1-800-381-5111

**Funding policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE I – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN – Continued**

**Funding Policy – Continued**

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008, were 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2008, was \$796,717 which consisted of \$670,596 from the District and \$126,121 from employees.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits**

Under the MPSERS Act, all retirees have the option of continuing health, dental, and vision coverage.

**NOTE J – COMMITMENTS AND CONTINGENCIES**

**Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE K – OTHER INFORMATION**

**Economic Dependence**

Prior year's revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 85 percent of General Fund revenues.

Public Schools of the City of  
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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE K – OTHER INFORMATION – Continued**

**Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

**NOTE L – SUBSEQUENT EVENT**

On August 20, 2008 the School District received the proceeds of a \$900,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2009 and bears interest at the rate of 1.70 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.



## **REQUIRED SUPPLEMENTAL INFORMATION**

Public Schools of the City of  
North Muskegon  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
General Fund  
For the year ended June 30, 2008

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUE				
Local sources				
Property taxes	\$ 582,453	\$ 609,483	\$ 619,657	\$ 10,174
Interest Delinquent Taxes	200	334	334	-
Investment earnings	52,000	39,400	38,185	(1,215)
Participation Fees	6,630	7,725	7,725	-
Rental Income	10,500	10,500	10,299	(201)
Donations/Strings/Other	500	21,500	21,139	(361)
Reimbursements	10,132	6,436	5,768	(668)
Medicaid	27,000	20,000	24,129	4,129
Miscellaneous	2,500	12,100	12,147	47
Total local sources	691,915	727,478	739,383	(466)
State sources				
Foundation - General	5,608,066	5,783,421	5,783,422	1
Foundation - Special Ed	174,172	175,103	175,103	-
At Risk	64,165	67,907	67,906	(1)
Durant	5,221	5,221	5,221	-
Bus driver safety	947	425	425	-
Adult education	249,000	259,593	263,061	3,468
Total state sources	6,101,571	6,291,670	6,295,138	3,468
Federal sources				
Title I	\$ 17,838	\$ 19,563	\$ 19,563	\$ -
Title II A	19,577	19,739	19,739	-
Title II D	183	184	184	-
TitleV	180	181	181	-
Drug Free	1,684	1,855	1,855	-
IDEA	107,385	113,925	113,925	-
Service provider	-	2,235	2,235	-
Total federal sources	146,847	157,682	157,682	-

Public Schools of the City of  
North Muskegon  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - CONTINUED  
General Fund  
For the year ended June 30, 2008

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES - Continued				
Incoming transfers/other				
MAISD - ACT 18	95,000	120,000	135,272	15,272
MAISD - transportation	-	11,035	11,034	(1)
EI Billback	-	34,589	32,484	(2,105)
Miscellaneous	-	50	50	-
Prior Year Adjustment	8,000	75,715	77,505	1,790
Fund modification	25,000	-	-	-
Total incoming transfers/other	128,000	241,389	256,345	14,956
Total general fund revenues	7,068,333	7,418,219	7,448,548	30,329
EXPENDITURES				
Elementary	1,695,229	1,762,346	1,756,652	5,694
Middle school	995,504	1,018,332	1,014,287	4,045
High school	1,286,216	1,370,955	1,365,509	5,446
Special Ed	693,857	714,530	706,882	7,648
At Risk	76,674	71,215	71,215	-
Community Ed	249,000	246,614	246,613	1
Guidance	177,011	169,888	168,527	1,361
Psychologist/Social worker	61,000	116,070	115,711	359
Other support	20,420	22,949	22,369	580
Instructional improvement	15,315	39,140	37,927	1,213
Library services	51,928	50,334	49,720	614
Technology	33,048	30,225	29,503	722
Title II A&D, Title V	13,671	-	-	-
General administration	319,516	306,837	302,408	4,429
Office of the principals	336,268	320,778	314,741	6,037
Internal services	47,250	58,281	54,917	3,364
Interest expense	48,000	39,913	40,579	(666)

Public Schools of the City of  
North Muskegon  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - CONTINUED  
General Fund  
For the year ended June 30, 2008

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
EXPENDITURES - Continued				
Operations & maintenance	583,674	613,503	603,649	9,854
Transportation	117,923	113,251	109,868	3,383
Support services business	-	28,165	28,165	-
Management information	72,165	99,818	98,909	909
Other expenses	4,230	5,364	5,339	25
Loan principal	22,105	22,103	22,102	1
Athletics	151,751	152,830	154,111	(1,281)
Total expenditures	<u>7,071,755</u>	<u>7,373,441</u>	<u>7,319,703</u>	<u>53,738</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (3,422)</u>	<u>\$ 44,778</u>	128,845	<u>\$ 84,067</u>
Fund balances at July 1, 2007			<u>586,518</u>	
Fund balances at June 30, 2008			<u>\$ 715,363</u>	





**NORTH MUSKEGON PUBLIC SCHOOLS**  
**1600 Mills Avenue**  
**North Muskegon Public Schools**  
**231-719-4100**  
**231-744-0739 Fax**

## **CONTINUING DISCLOSURE**

### **2007/2008**

Administrative Staff

John L. Weaver, Superintendent of Schools  
Anne Reinecke, Business Manager

FORM OF  
CONTINUING DISCLOSURE AGREEMENT

NORTH MUSKEGON PUBLIC SCHOOLS  
COUNTY OF MUSKEGON  
STATE OF MICHIGAN

# GENERAL FINANCIAL INFORMATION

## PROPERTY VALUATIONS

In accordance with Act No. 539, Public Acts of Michigan, 1982, and Article IX, Section 3 of the Michigan Constitution, the ad valorem State Equalized Valuation (SEV) represents 50% of true cash value. SEV does not include any value of tax exempt property (e.g. churches, governmental property) or property granted tax abatements under Act No. 198, Public Acts of Michigan, 1974, as amended. **As a result of Proposal A, ad valorem property taxes are assessed on the basis of taxable value, which is subject to assessment caps. SEV is used in the calculation of debt margin and true cash value. See "TAX PROCEDURES" herein.**

Taxable property in the School District is assessed by the local municipal assessor, and is subject to review by the County Equalization Department.

### Historical Valuation

Year	Homestead	Non-Homestead	Total Taxable Valuation
2008	112,148,267	33,766,455	146,068,385
2007	109,248,677	35,257,211	144,505,888
2006	104,928,454	33,142,008	138,070,462
2005	100,300,658	31,752,512	132,053,170
2004	95,840,566	29,676,337	126,376,329
2003	93,678,598	26,313,763	120,668,038
2002	90,024,640	26,294,951	116,502,768
2001	85,628,523	24,421,945	110,043,333
2000	80,971,381	21,851,753	102,763,002

## MAJOR TAXPAYERS

The top ten taxpayers in the School District and their 2006 Taxable Valuation and Industrial Facilities Tax Valuation are as follows:

Taxpayer	Product/Service	Taxable Valuation
Marathon Oil	Oil Refinery	\$1,975,120
Beverly Hills Apartments	Apartments	1,675,424
Jestco Properties LLC	Consultation	1,576,226
Pointe Marine Assoc	Marina	680,745
Newcorp Inc.	Heavy Eqpt./trucking	897,518
Mich. Cons. Gas Co.	Utility	839,800
Consumer's Energy	Utility	799,834
Whitehall Properties	Real Estate	662,335
Road Runner Properties	Real Estate	587,600
Marathon Petroleum Co	Fuel	483,500
TOTAL		<u>\$10,178,102</u>

The Taxable Valuations of the above taxpayers represent 6.97% of the School District's 2008 Taxable Valuation of \$146,068,385.



## CONSTITUTIONAL MILLAGE ROLLBACK

Article IX, Section 31 of the Michigan Constitution requires that if the total value of existing taxable property (State Equalized Valuation) in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be reduced through a Millage Reduction Fraction unless new millage is authorized by a vote of the electorate of the local taxing unit.

### TAX RATES (Per \$1,000 of Valuation)

Each school district, county, township, special authority and city has a geographical definition which constitutes a tax district. Since local school districts and the county overlap either a township or a city, and intermediate school districts overlap local school districts and county boundaries, the result is many different tax rate districts.

#### North Muskegon Public Schools

	2008	2007	2006	2005	2004
Voted (non-homestead)	17.8524	17.8524	17.8578	17.7626	17.9820
Debt	7.7300	7.7300	7.7300	7.7300	7.0000
TOTAL HOMESTEAD	7.0000	7.0000	7.0000	7.0000	7.0000
TOTAL NON-HOMESTEAD	24.8524	24.8524	24.8578	24.7626	24.9820

The School District's voted non-homestead millage expires with the December 1, 2010 levy.

#### Other Major Taxing Units

	2007	2006	2005
State Education Fund <sup>1</sup>	6.0000	6.0000	6.0000
Muskegon County	6.7357	6.7757	6.7757
City of North Muskegon	12.4026	12.4026	12.4026
Muskegon County I/S/D	3.7580	3.7580	3.7580
Muskegon Community College	2.2037	2.2037	2.2037

o Pursuant to school finance reform legislation which became effective in March 1994, the State of Michigan levies 6.00 mills for school operating purposes on all homestead and non-homestead property located within the School District. The School District levies 18.0000 mills of voted operating millage on non-homestead property and authorized debt millage on all homestead and non-homestead property located within the School District. See "SOURCES OF SCHOOL OPERATING REVENUE" herein. Pursuant to 2002 Public Act 244 (the "Act"), for the year 2003 only, the 6 mill State Education tax levy was reduced to 5 mills and the levy has been permanently moved forward to July 1 from December 1.

Source: Muskegon County

### STATE AID PAYMENTS

The School District's primary source of funding for operating costs is the State aid foundation allowance per pupil. The foundation guarantee was set from \$7,210 to \$7,326 per pupil for the fiscal year 2007/08. In future years, this allowance may be adjusted by an index based upon the change in revenues to the state school aid fund and the change in the total number of pupils statewide. See "SOURCES OF SCHOOL OPERATING REVENUE" herein for additional information.

The following table shows a four year history and a current estimate of the School District's total state aid revenues, including categoricals and other amounts, and the per pupil state aid foundation allowance, which reflects the changes in sources of school operating revenue described herein:

<u>Year</u>	<u>Total</u>	<u>State Amount Received per Pupil</u>	<u>Foundation Allowance per Pupil</u>
2007/08	6,303,666	\$6,624.75	\$7,326.00
2006/07	6,031,057	6,480.67	7,210.00
2005/06	5,716,009	6,349.16	7,000.00
2004/05	5,607,054	6,203.38	6,825.00
2003/04	5,723,271	6,285.00	6,825.00
2002/03	5,738,672	6,265.48	6,825.00
2001/02	5,666,176	6,118.16	6,625.00
2000/01	5,487,544	5,885.02	6,325.00

Source: Michigan Department of Education and School District

2006/2007 was the first year NMPS offered an Adult Education program which generated \$201,922 in new money, in addition a credit adjustment of \$106,868 was made to the foundation allowance and offset with a MSPERS credit.

#### **TAX LEVIES AND COLLECTIONS**

The School District's fiscal year begins July 1 and ends June 30. School District property taxes are due December 1 of each fiscal year and are payable without interest or penalty on or before the following February 14. All real property taxes remaining unpaid on March 1st of the year following the levy are turned over to the County Treasurer for collection. Muskegon County annually pays from its Tax Payment Fund delinquent taxes on real property to all taxing units in the County, including the School District, shortly after the date delinquent taxes are returned to the County Treasurer for collection. The payments from this fund has resulted in collections of taxes approaching 100% for all taxing units. Delinquent personal property taxes are negligible.

A history of tax levies and collections for the School District is as follows:

<u>Levy Year</u>	<u>Operating Tax Levy</u>	<u>Collections to March 1 of Following Year</u>	<u>Collections plus Funding To June 30 of Following Year</u>		
2007	619,657	583,632	94.19	619,657	100.00%
2006	586,400	545,212	92.97	586,400	100.00
2005	557,377	529,414	94.98	557,377	100.00
2004	535,101	510,499	95.40	535,101	100.00
2003	490,231	450,253	91.84	490,231	100.00
2002	475,563	463,721	97.51	475,563	100.00
2001	443,160	413,797	93.37	443,160	100.00

Source: School District

The Tax Payment Fund is financed through the issuance of General Obligation Limited Tax Notes (GOLTNs) by the County. Although the School District anticipates the continuance of this program by the County, the ability of the County to issue such GOLTNs is subject to market conditions at the time of offering. In addition, Act 206 of 1893, as amended, provides in part that: "The primary obligation to pay to the county the amount of taxes and interest thereon shall rest with the local taxing units, and if the delinquent taxes which are due and payable to the county are not received by the county for any reason, the county has full right of recourse against the taxing unit to recover the amount thereof and interest thereon..." On the first Tuesday in May in each year, a tax sale is held by the County at which lands delinquent for taxes assessed in the third year preceding the sale, or in a prior year, are sold for the total of the unpaid taxes of those years.

## PENSION FUND

For the period October 1 through September 30 the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS") which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. The School District's estimated contribution to MPERS for the 2005/06 fiscal year and the contributions for the previous four years are shown below.

<u>Contribution Period</u>	<u>Contribution Rate</u>
Oct. 1, 2008-Sept. 30, 2009	16.54%
Oct. 1, 2007-Sept. 30, 2008	16.72%
Oct. 1, 2006-Sept. 30, 2007	17.74%
Oct. 1, 2005-Sept. 30, 2006	16.34
Oct. 1, 2004-Sept. 30, 2005	14.87
Oct. 1, 2003-Sept. 30, 2004	12.99
Oct. 1, 2002-Sept. 30, 2003	12.99
Oct. 1, 2001-Sept. 30, 2002	12.17
Oct. 1, 2000-Sept. 30, 2001	12.16

<u>Fiscal Year Ending</u>	<u>Contributions to</u>
<u>June 30</u>	<u>MPERS</u>
2008	675,092
2007	680,120
2006	615,924
2005	583,230
2004	500,392
2003	483,717
2002	489,826
2001	485,784

Source: Audited financial statements

## DEBT STATEMENT

(As of June 2008 and including the Bonds described herein)

### DIRECT DEBT

Dated			Interest		Amount
<u>Date</u>	<u>Purpose</u>	<u>Type</u>	<u>Spread</u>	<u>Maturities</u>	<u>Outstanding</u>
8/12/03	Building & Site & Ref.	UTQ	2.00-5.375%	5/1/05-33	4,050,000
1/4/05	Building & Site/Refunding		2.50-5.00%	5/1/05-20	5,595,000
2/9/06	Building & Site/Refunding		4.00-4.40%	5/1/20-33	8,110,000
TOTAL DIRECT DEBT					\$17,755,000

Source: Municipal Advisory Council of Michigan

## OTHER FINANCING

In November 1998, the School District sold bonds to the Michigan Municipal Bond Authority payable solely from annual state appropriations pursuant to Section 11g of the State School Aid Act of 1979, as amended. Such bonds do not by statute, constitute a general obligation of the School District or a debt of the School District within the meaning of any constitutional or statutory debt limitation. The current amount of (Durant)principal outstanding is \$21,400.

## OTHER BORROWING

The School District has the following borrowing outstanding:

<u>Date</u>	<u>Description</u>	<u>Rate</u>	<u>Interest Date</u>	<u>Maturity Balance</u>
8/20/2008	State Aid Note	2.301%	08/20/09	\$900,000
	EPA Loan	0.00	11/10/10	25,953

## SCHOOL BOND LOAN FUND (SBLF) PROGRAM

As of June 30, 2008, the School District has a School Bond Loan Fund borrowing balance of \$2,383,400.

School Bond Loan Fund	\$871,364.91
School Loan Revolving Fund	<u>\$1,512,035.49</u>
Total	<u>\$2,383,400.40</u>

For more information on the School Bond Loan Fund, please see "QUALIFICATION BY THE STATE OF MICHIGAN"

Source: State of Michigan Department of Treasury

## SCHOOL ENROLLMENT - HISTORICAL ENROLLMENT

The School District's historical enrollment (Fall Pupil Count Day) is as follows:

<u>School Year</u>	<u>Enrollment</u>
2007/08	901
2006/07	893
2005/06	880
2004/05	876
2003/04	907
2002/03	919
2001/02	894
2000/01	929



**Resolution for Adoption by the Board of Education  
North Muskegon Public Schools  
2007-2008**

Resolved, that this resolution shall be the general appropriations of North Muskegon Public School District Name for the 2007-2008 fiscal year; a resolution to make appropriations; to provide for the expenditure of the appropriations; and to provide for the disposition of all revenue received by North Muskegon Public Schools.

Be it further resolved, that the total revenues and unappropriated fund balance estimated to be available for appropriation in the general fund of the school district for fiscal year 2007-2008 which includes 18 mills of ad valorem taxes to be levied on non-homestead and non-qualified agricultural property to be used for operating purposes is as follows:

	Initial Final <u>6/30/07</u>	Revised <u>3/30/08</u> <u>06/30/08</u>
Revenue:		
Local	\$ 704,415	\$ 772,110\$ 727,478
State	\$ 6,133,123	\$ 6,280,755\$ 6,291,670
Federal	\$ 146,847	\$ 153,847\$ 157,682
Other Financing Sources	\$ 128,000	\$ 222,103\$ 241,389
Total Revenue -	<b>\$7,112,385</b>	<b>\$7,428,815\$7,418,219</b>
Fund Balance, July 1 - \$ 461,681		
Less Appropriated Fund Balance	\$ 28,439	\$ - 58,111 \$ -
<u>44,776</u>		
Total Available to Appropriate	<b>\$7,140,824</b>	<b>\$7,370,704\$7,373,443</b>

Be it further resolved, that \$7,373,433 of the total available to appropriate in the general fund is hereby appropriated in the amounts and for the purposes set forth below:

Expenditures:

Instruction		
Basic Programs	\$ 4,003,819	\$ 4,123,402\$ 4,151,634
Added Needs	\$ 730,857	\$ 1,076,160\$ 785,745
Adult Ed	\$ 249,000	\$ 246,614\$ 246,614
Support Services		
Pupil Support	\$ 258,431	\$ 254,095\$ 308,907
Instructional Staff Support	\$ 186,380	\$ 134,711\$ 119,699
General Administration	\$ 324,216	\$ 322,358\$ 306,837
School Administration	\$ 339,698	\$ 349,923\$ 320,778
Business Services	\$ 92,250	\$ 103,281\$ 123,971
Operations and Maintenance	\$ 583,674	\$ 602,134\$ 613,503
Transportation	\$ 109,623	\$ 119,165\$ 113,251
Other Central Support	\$ 10,720	\$ 108,257\$ 105,183
Other Financing Uses	\$ 252,156	\$ 177,218\$ 177,321
Total Appropriated	<b>\$7,140,824</b>	<b>\$7,370,704\$7,373,443</b>

Further Resolved, that no board of education member or employee of the school district shall expend any funds or obligate the expenditure of any funds except pursuant to appropriations made by the board of education and in keeping with the budgetary policy statement hitherto adopted by the board. Changes in the amount appropriated by the board shall require approval of the board.

Board of Education  
Public Schools of the City of North Muskegon  
North Muskegon, Michigan

## **MANAGEMENT LETTER**

Ladies and Gentlemen:

We have completed an audit of the financial statements of the Public Schools of the City of North Muskegon for the year ended June 30, 2008. In connection with that audit we did tests of transactions in the payroll, cash receipts, and invoice support categories as well as testing the district's bank reconciliations. The following observations are made based on test results.

### Prior Year Recommendations

The invoice processing and payroll tax payment schedules should be revised to eliminate late payment and related penalties.

### Current Year Recommendations

Certificate of Deposit investments should be recorded in a separate general ledger account. They are now comingled with the Money Market Account.

Based on the recent turmoil in the financial markets, it may be prudent to review depository policy and the insurance limitations associated therewith.

If you have any questions on this or other matters please call or write.

Sincerely:

John J. Mahoney CPA

Muskegon, Michigan  
October 10, 2008